S&MM
SALES & MARKETING MANAGEMENT

AN S&MM SPECIAL SECTION
Fleet cars 1982: Rise of the mid-size
Page 63.

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'Mud men' strike marketing

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Survey II. Inputs from the 1980 Census make the *Survey of Buying Power—Part II* a more effective planning tool than ever before. Also included: Up-to-date profiles of newspaper and TV markets, and five-year forecasts for U.S. and Canadian metro markets. Oct. 26.

An S&MM Special Section: Sales Meetings. Every sales manager's goal is to run a meeting that informs and stimulates the sales force. This section explores a number of different ways to achieve those goals. Nov. 16.

Wine marketing. Now that American palates have been educated to appreciate fine wine, the battle is on to see which vintners come up with the biggest market share. Nov. 16.

Robots for sale. Because industrial robots are a cross between machine tools and computers, robot makers vary on whether sales efforts should be directed toward plant engineers or top management. Thus some companies are trying to find salespeople with both technical knowledge and marketing savvy. Nov. 16.

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S&MM's cover photograph by Ed Lawrence, IMCO Services.

YOUTH MARKET

Teens with $35 billion

Although the decline in birth rates since 1957 has made marketers shift from "think young" to "think old," teen-agers still represent significant buying power with long-range implications. "There are more than 18 million teen-agers out there," says Edward I. Barz, senior vice president at Simmons Market Research Bureau, New York City. "Being tomorrow's adult consumers, the brand loyalties they form now will extend into the future."

Three out of five work

Simmons has just completed a detailed study of 1,964 consumers in the 12–19 age bracket, which, among other things, shows that three out of five (60.9%) have either part- or full-time jobs, ranging from babysitting to clerking in stores. Judging by what respondents reported on their income (see table), Barz figures teen-agers earn $624.2 million a week. If you add in the 39.2% who say they get an allowance, he says, total teen buying power approaches $35 billion a year.

Not surprisingly, radio seems to be the broadest medium for reaching the market. In a typical day, 95% of the group listen to radio, 62% read a newspaper, and 50% watch TV during prime time (8:00–11:00 p.m). Although Simmons asked for information on 39 magazines, Barz says he did not try to develop an overall figure on magazine readership.

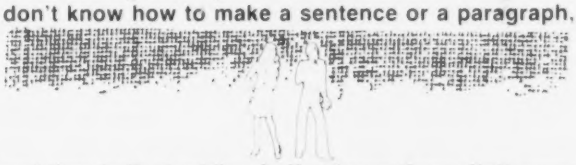
Traditional values seem to rate high with the teens, says Aaron Cohen, a researcher specializing in the youth market who served as a consultant on the survey. He notes that 95% intend to get married. However, 43% of the boys and 53% of the girls say they will have children only after they have "achieved financial security," compared to just 8% who will start families soon after they exchange wedding vows.

Significantly, 43% of the boys and 33% of the girls "aren't sure" whether they want to become parents, but only 6% say they don't plan to have children at all. Could be that kids in this hard-headed minority are more aware of the strain they put on their own parents' wallets. S&MM

A cheated generation

When social commentators talk about young people today, the themes are things like draft registration, deteriorating schools, declining SATs, rising tuitions, soaring unemployment, diminishing opportunities. For a kid about to be turned loose on the world, all that rising, soaring, declining, and deteriorating adds up to a pretty unsettling picture. Bill and his friends are going to have to get along in a world that doesn't expect very much of them.

I found myself getting angrier and angrier about the ignorance that was not only condoned but even cultivated at Bingham High. The lucky members of my class don't know how to make a sentence or a paragraph,



and they balk at adding half a dozen three-digit numbers. Never mind that they don't know Latin, or French, or chemistry, or biology, or algebra, or European history; they've been cheated out of skills so fundamental it's hard to imagine them getting along from one day to the next.

Even so, the kids I knew were almost without exception optimistic. Most expected to own bigger houses and better cars than their parents did, and they were certain they would make more money—lots more. I hope they won't be disappointed in the world they inherit.

Excerpted from *High School*, by David Owen. Copyright © 1981 by David Owen. Reprinted by arrangement with The Viking Press.

Kids at work . . .

Age Group	*% Employed*
12–14	48.0%
15–17	62.7
18–19	75.1
Total (12–19)	60.9

. . . and their weekly earnings

More than $50	23.2%
$10–$50	18.5
Under $10	19.2
Not working	39.1

Source: Simmons Market Research Bureau, *Simmons Teen Age Research Study: 1981*. © Sales & Marketing Management.

THE ECONOMY

L.A.'s garage sale system

With 500–1,000 sales a weekend, garage sales are becoming a major casual market in Los Angeles's economy. Before the energy crunch, Angelenos flocked to the sales as much for their entertainment value as for the bargains they offered.

Inflation and energy have changed that. For the average consumer, inflation dictates pursuing the bargain, but with Los Angeles's sprawl and gas at $1.50 a gallon, the dollar saved can end up as much as $10 or $20 spent.

Where the bargains are

As a way out of this bind, Ray Johnson, a retired industrial engineer and a long-time garage-sale afficionado, has come out with *Garage Sale Shopper*, a weekly guide to all that's good in garage sales. Johnson has so far confined listings to the San Fernando Valley, but because circulation has grown to 12,000 in nine weeks of publication, he's launching several more regional issues this month, and he says he'll eventually blanket the state with hundreds of area shoppers.

The paper is distributed through newsstands, liquor stores, and 7-11 stores. Listings are free, with production and sales costs covered by paid advertisements and an issue price of 50¢. The paper has a staff of six salespeople.

"Because our readers are bargain hunters, we try to get as many coupon ads as possible," Johnson says. Another special feature is a centerfold map with garage-sale locations targeted with red arrows.

S&MM SALESGRAPH

The wired home: Boon or bane?

Indicative of the uncertainty surrounding the future of in-home computer- and TV-related services (see page 17), a new report says the market, by 1990, could range anywhere from $1.5 billion to $5.0 billion. However, the report's author, Strategic, Inc., a San Jose hi-tech research firm, affirms that due to the expanding capabilities of low-cost microcomputer technology, on the one hand, and rising costs of transportation and outside entertainment, on the other, "the home appears ripe for new consumer electronic products and services." The biggest cloud overhanging the market, says Jules Street, vice president, special projects, is the time factor. "With the consumer spending more than six hours a day watching TV today," he asks, "where will the additional time come from?" He thinks advertisers and programming sponsors may ultimately absorb the cost of the new services or subsidize them "to get the consumer's attention as time and money shift away from traditional media."

The computer- and TV-related services market

	1980	*1985*	*1990*	*% Growth 1985–90*
		Millions		
Total TV households	77.70	85.40	93.80	10%
Cable-TV households	16.40	22.00	29.40	34
Households equipped for:				
Teletext (one-way TV)	0.00	1.85	10.63	475
Videotex (interactive TV)	0.00	1.40	8.00	471
Households using personal computers to access information retrieval services	0.02	0.50	1.89	278
Consumer expenditures (excluding hardware)	0.00	$605.00	$3,235.00	435

Note: Household totals for teletext and videotex, as well as consumer expenditures, are mid-point of "conservative" and "optimistic" forecasts.
Source: Strategic, Inc., *Communications and Networks in the Home*.
" Sales & Marketing Management.

NEW IDEAS

Health Care calling

Computerized shopping at home may be the wave of the future (see page 17), but Golden Health Care Apparel Co. has broken new ground with a cept that outdates the milkman.

The Brooklyn company's four Stagecoach Stores on Wheels visit some 600 nursing homes and state hospitals in the Baltimore-Boston corridor to sell clothing customized for impaired patients. Once a truck arrives, it takes only a few minutes to wheel in what becomes a mobile retail store displaying some 40 items ranging from

Sales of drilling fluids, or "mud," are gushing as the search for oil and gas propels well-drilling activity to a frenzied high. But it's slippery going for mud marketers as prospects and competitors multiply too fast to track.

'Mud men' strike marketing

Every well produces sales for mud companies. Their fluids lubricate pipes and bits.

By SALLY SCANLON
Senior Editor

In the bygone era when mud salesmen rode the oil patch in alligator shoes and market research was done in local bars, most of the high-pressure situations for drilling-fluid, or "mud," marketers were "downhole" in the wells their customers were drilling. There's still plenty of pressure downhole, but with drilling activity at an all-time high, the market itself has become the pressure cooker for mud companies.

"Competition is dog eat dog," says Ron Williams, a regional sales manager for OBI-Hughes, Houston, the mud division of Hughes Tool. At one end of the $3.35 billion mud industry, the four market leaders, which have 75% of the business worldwide, are pushing to increase their market shares. At the other, regional mud companies are springing up almost daily to pump the U.S. market's lucrative potential and rustle service engineers from the leaders.

To add to the heat, potential customers are proliferating so fast that it's hard to keep track of them. Also, buying influences even within established customer organizations are becoming more diverse and harder to locate.

Faced with this rapidly changing environment, drilling-fluids companies are striving to make the transition from selling to marketing organizations. The market leaders, Dresser Industries' Magcobar Group, NL Industries' NL Baroid, Halliburton's IMCO Services Div., and Baker International's Milchem subsidiary, all based in Houston, are setting the pace. Following close on their heels is up-and-comer OBI-Hughes, which claims to be a distant No. 5 with a 4.5% market share.

Mud-company executives have one main objective for their marketing programs. All hope to differentiate their company's service capabilities from

those of the other "majors," as the top four are called, and from the hundreds of smaller companies known as "independents." (OBI is considered a large independent.)

"Quality of service is the principal thing that determines who makes the sale in this industry," says Alan L. Gottlieb, market research manager, Milchem. Quality service in the mud business means having the right products at the right price in the right place, a significant feat in these black-gold-rush days. But above all, quality service means having expert field-service engineers and extensive research laboratories to support them.

Well-site experts

The service engineer's function is critical to the drilling-fluids customer. The engineer, or "mud man" (who may be a woman these days), is a well-site chemist. He is important because drilling fluids are used to prevent cave-ins and control pressures downhole as well as to cool the drilling equipment and bring cuttings up to the surface. The engineer designs the well's mud programs, and then monitors the fluid and cuttings flowing out of the well to determine what's happening downhole and adjust the fluid's consistency and chemical mix accordingly.

"The service engineer can make a big difference in the cost of drilling," says Andy Efthim, drilling superintendent for Conoco in Caspar, WY, a part of the booming Overthrust Belt in the Rocky Mountains. So much so that customers often pay an extra $250–$300 per day to have a mud man on site 24 hours per day at critical wells. Efthim, like other customers, prefers to have "only engineers with several years' experience."

Mud-company managers, aware of that preference, make it a selling practice to offer prospective customers engineers they particularly respect. For example, NL Baroid's (pronounced bay-roid) Dr. J. Paul Rupert, director of marketing technology, says that Baroid has one engineer who has worked only Texaco wells for the past 14 years.

Customers' preference for a proven expert, along with the $20,000–$30,000 it costs to train each fledgling service engineer, are two reasons that small mud companies are continually raiding the majors' engineers. "If a small company can convince an operator that its engineer knows what he's doing, it can get jobs," says Tommy E. Sheets, general manager, drilling, for Patrick Petroleum, a $43 million, Jackson, MI, oil and gas company. "It's easy to start a mud company if you have the technical expertise," he adds. "You can buy the products from a general (petroleum supply) store."

Where the profits are

Drilling fluids are water-, brine-, or oil-based mixtures of weighting materials, gels, and specialty chemicals. Weighting materials help to control downhole pressures, and gels keep them in suspension in the liquid base. Specialty chemicals are used to prevent circulation loss and combat particular downhole problems, such as corrosive gases.

"Most mud companies have the same products," says Patrick Petroleum's Sheets, voicing the universal opinion of customers. That's because the main ingredient in most muds is barite (pronounced bay-right), a weighting material made of ground and blended barium sulfate. Barite, which currently sells for about $120 per 100-lb sack, accounts for 40% of industry sales, or $1.4 billion this year, Thomas A. Escott, an analyst for Paine Webber Mitchell Hutchins estimates. The large companies mine, grind, and blend their own barite. They wholesale part of their ground output and sell the blended product to end users under various brand names.

Gross margins on barite are said to be about 70%. In contrast, margins on specialty chemicals, which are often proprietary, can be 70%, 100%, or more. "If we went a nickel over [the going rate] for barite, we'd have to drop our price back," says a marketing executive at one of the big four. "So we have to make what we can on our specialty chemicals." In fact, Paine Webber's Escott finds that the majors "use barite almost as a loss leader to get the very profitable specialty-chemicals business."

Independents' tactics

However, many independent mud companies have grown by filling gaps in the majors' distribution and undercutting their prices by as much as 10%. They can still make a lot of money, customers point out, because they don't have the overhead (research and training expenses) of the larger companies.

A few independents have also grown by offering specialty chemicals or mud formulations that solve particular problems downhole. For example, OBI (or Oil Base, Inc., as it was known until its acquisition by Hughes two years ago) made its reputation by developing the industry's first oil-based muds. Such muds can be especially useful in deep, high-temperature wells because of their thermal stability and corrosion inhibitors.

Almost any mud company can do the job on shallow, low-pressure wells, customers say. But when it comes to drilling deep wells, offshore wells, highly corrosive (or "sour gas") wells, and "wildcats" (wells in areas where no oil or gas production exists), they depend on the majors. "They have the research facilities and experience," says Conoco's Efthim.

They also have extensive records on what's worked in various rock formations, which can be particularly helpful on wildcats, he adds.

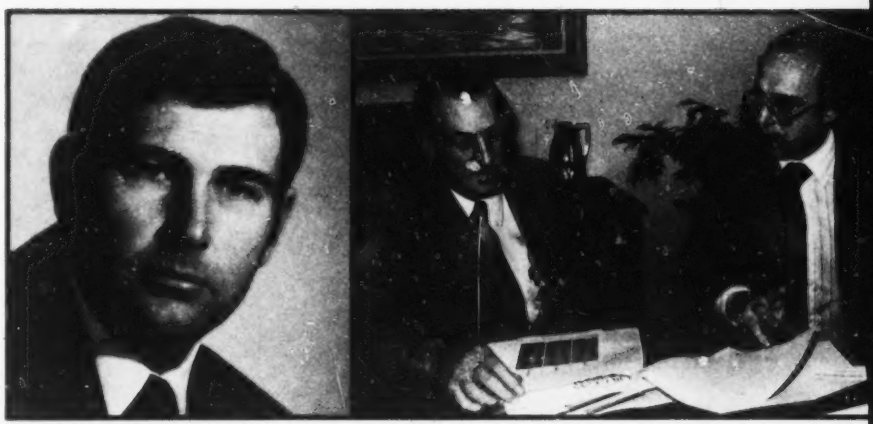
As the market explodes like a gusher, mud companies are sharpening their marketing skills so that they can be even more responsive to their customers. Before, says Baroid's Rupert, "We tried to convince customers to buy our products. now we're analyzing our customers' needs and our products for fits. We ask ourselves, What do we have to offer this customer that he can't get up the street?"

To answer that question, most mud marketers are taking the following steps:

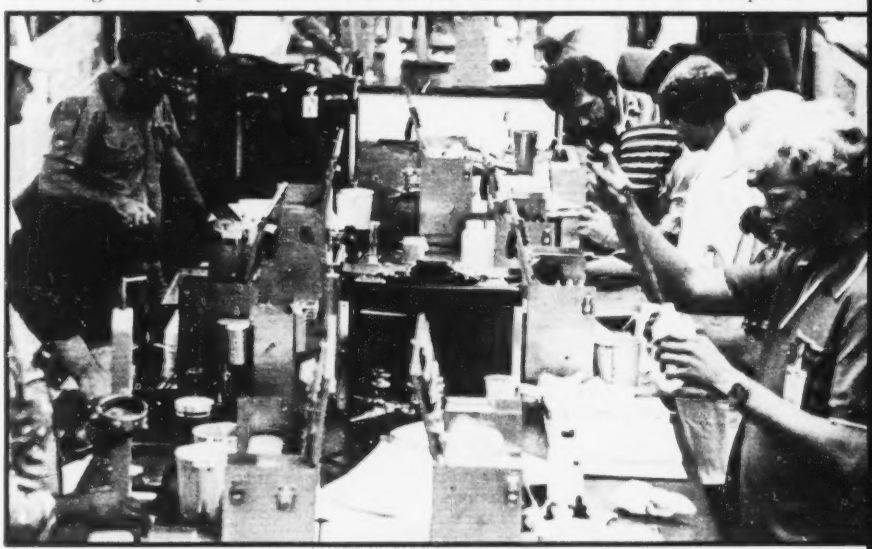
- ♦ accelerating their market research
- ♦ expanding the market-planning function
- ♦ increasing product research and development
- ♦ broadening distribution facilities and training programs
- ♦ sharpening their sales and promotion programs.

Baker's Milchem, for example, has invested heavily in market research. Its market analysts study where drilling activity is now and where it is going. They pay special attention to the types of formations operators will be drilling, what they will drill for (oil or gas), and even what political risks may be involved in operating in a given area. Milchem's marketing executives use the information to identify the most promising opportunities and then to structure market plans, target sales efforts, direct product research and development, and forecast manpower and capital-spending needs.

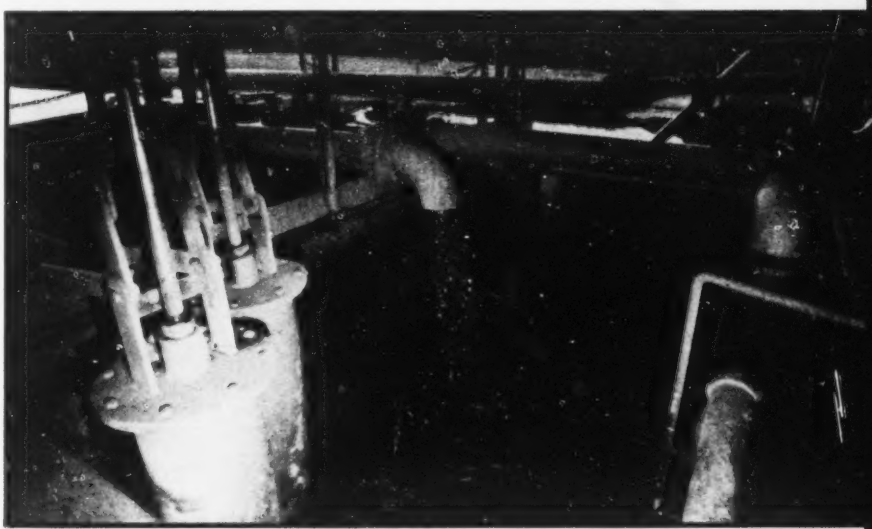
Market research also helps mud companies identify elusive buying influences. "Part of the thrill of the game is to identify who the principal buying influence is," says Baroid's Rupert. "It varies from company to



Market planning ranks high among drilling-fluids executives. From left: OBI-Hughes' Jerry Dumas and NL Baroid's Ken Tanner and Paul Rupert.



Trainee service engineers study mud chemistry in Baroid's school lab.



Mud flow from the well carries valuable clues to conditions "downhole."

company. Usually it's more than one person. So if we do our job right, we communicate with different levels in the customer's company."

In today's black-gold rush, it's difficult to track all the new operators, let alone find out whether their buying influence is a purchasing agent, operations vice president, drilling superintendent, or all three plus a couple of technical experts. Nonetheless, the major marketers try to track newcomers, because, as IMCO's marketing administration director Louis E. Buresh puts it, "Market share is everything to us in the long run." Says Buresh, "If a company drills one well, it will drill others. Repeat business is important. It is common to do $6–$7 million with one account."

Market planning

IMCO and other mud companies use a combination of corporate and grass-roots research and forecasts to develop annual market plans and set specific sales goals. "The plans aren't just exercises," says Baroid's Rupert, whose company uses a combination of a five-year strategic plan and a one-year marketing plan. "We use them and refer to them at our monthly operations reviews."

Similarly, OBI president Jerry Dumas and his top managers review their plan quarterly to assess results to date and to "redirect resources to take advantage of areas that have blossomed and those that haven't," Dumas says. OBI's current plans call for becoming a fully national mud supplier by the end of next March and then expanding the foreign market base.

"Being a strong worldwide organization will make us a more competent mud company," says Dumas. "It will give us an opportunity to be exposed to drilling problems we might never see in the U.S." For example, Dumas says that OBI's work in the North Sea already has given it access to certain shale-section problems that it might not have encountered domestically. This has fostered product research that will probably expand OBI's capabilities, and may help it achieve management's goal of becoming one of the market leaders by 1990.

Customers' priorities

Such development efforts often determine which mud company lands a big chunk of business. John Kelly, senior engineering consultant for Mobil Oil in Dallas, for example, says, "How much a company is contributing to the resolution of drilling problems and how much it is willing to cooperate in the development of products is a big factor with us. That's why we use the majors." Adds Patrick Petroleum's Sheets, "The majors are doing the research and coming out with the new products. So we want to support them."

Distribution and training facilities are also important to a mud company's marketing mix. Thus Conoco's Efthim says that when he is choosing among suppliers with servicing expertise "a lot depends on who's got the closest stocking point." It costs a lot to move mud and the customer usually pays for freight. Thus virtually all of the majors have recently expanded their physical distribution facilities. They are also investing heavily in training for customers, as well as for their own sales and service personnel.

Training aids the marketing effort in two ways: (1) Customers are likely to respect the expertise and specify the products of companies that have trained them. (2) Trained mud-company personnel give their employers a real edge in the field in sales as well as service.

"Our salespeople have to convince prospects that we can provide a more economical operation and that they won't have to sit up nights worrying about their drilling operation," says Baroid's Kenneth D. Tanner, business development vice president, NL Drilling Products. Tanner, who joined Baroid as a salesperson, notes that, "way back when I started, we had just a few products. A salesman went to mud school for two weeks and rode with an experienced salesman for a week or two. Then he got 16 counties and never saw anyone from the company."

Today, Tanner says, Baroid's salespeople sell in excess of 150 products and spend weeks in NL Industries $22 million Petroleum Services Training Center in Houston. When they get their own territories, they also get extensive support from the home office, including AV sales presentations, technical literature, a 24-hour hot line to Baroid's central laboratory, and as of last month, a technical newsletter that keeps them abreast of developments in the laboratory.

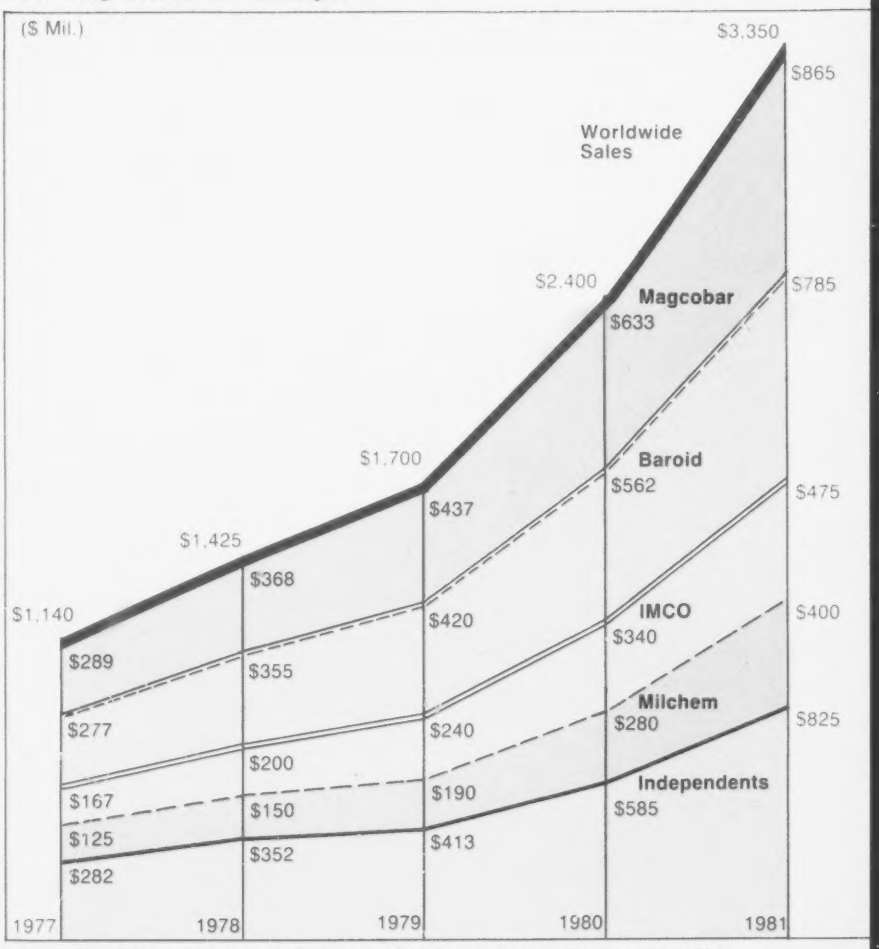
Getting repeat business

The salesperson's job is to identify buying influences and to keep the operating and management personnel of oil and gas companies up to date on his product lines. Repeat business is the mainstay of the market. Thus the salesperson also acts as a liaison between his own management and service engineers on the one hand and the customer's and drilling contractor's personnel on the other.

Many mud salespeople take a broad view of their duties. For example, OBI regional sales manager Williams says, "Part of my job is to help customers line up such items as pumps and casing products when supplies get tight so that they can start drilling and use my mud."

Probably the toughest job for a mud salesperson is to persuade oil and gas company executives to try a new product

How they divide the mud pie



Source: Paine Webber Mitchell Hutchins, Inc. (PWMH), *Oil Service Monthly*, June 1981. PWMH bases 1977–1980 revenues for Magcobar and Baroid on their parent companies' annual reports. Magcobar's revenues include hardware and treating chemicals. Baroid's include hardware rentals but exclude hardware sales, treating chemicals, and its Hycolog drill bits. All other figures are PWMH estimates.

Sales & Marketing Management

that's designed to replace an old standby rather than solve a hitherto unresolved drilling problem. "This is a very conservative market place," says Baroid's Rupert, voicing an opinion also expressed by financial analysts, publishers, and other mud-company executives. "The good thing about it is that products have staying power. The bad thing is that there is reluctance to try new products because people buy on reliability, not strictly on specifications."

Are ads a necessary evil?

The industry's cautious approach to new products is presenting Baroid marketers with a tough challenge. Baroid recently introduced Bar-Gain, a premium-priced substitute for barite. Baroid claims it speeds drilling by 25%–50%, thereby reducing drilling costs. So far, however, sales haven't met marketers' expectations. They hope to persuade customers to give Bar-Gain a chance with a new AV sales presentation that they shipped to Baroid's field sales offices last month and with a new ad campaign. Both will emphasize the cost-savings of customers that have tried the product.

All the leading companies regularly advertise in such trade publications as *Oil & Gas Journal* and *World Oil*, and all of them appear at trade shows. Ads and show appearances generally strive to gain share of mind by touting the mud company's technological prowess and its services.

OBI's new marketing services director Jerry Conway thinks mud-company ads should do more than that. "Advertising has been looked on by this industry as a necessary evil," he says. "I think it has to be integrated into the marketing mix." To that end, OBI has just begun a new ad program that will be tied in with a direct-mail campaign, new promotion literature, and even a new mud-bag package design. Says Conway, "We have to change OBI's identity in people's minds as a one-product, oil-base mud company. Fifty percent of our line is water-based."

Despite the mud industry's push toward marketing, only Magcobar, whose executives refused to be interviewed by S&MM, uses product management. Its system is about three years old, and industry observers consider Magcobar a strong marketer with excellent distribution. Baroid executives, whose goal is to take 40% of the market in coming years, believe that their company eventually will also embrace product management, along with other marketing techniques.

What the market shares will look like by the end of the decade is almost as hard to call as the productivity of a new well. Competitive pressures continue to build rapidly with big marketing-oriented companies, such as Dow Chemical, entering the field via acquisition, and leading "independents," such as OBI, vastly increasing their capabilities. Then too, the hordes of new oil and gas companies may be less reluctant than established ones to try new mud companies. But if the majors can make marketing work for them the way they make their products work for customers, they'll probably continue to share at least half the mud pie. S&MM

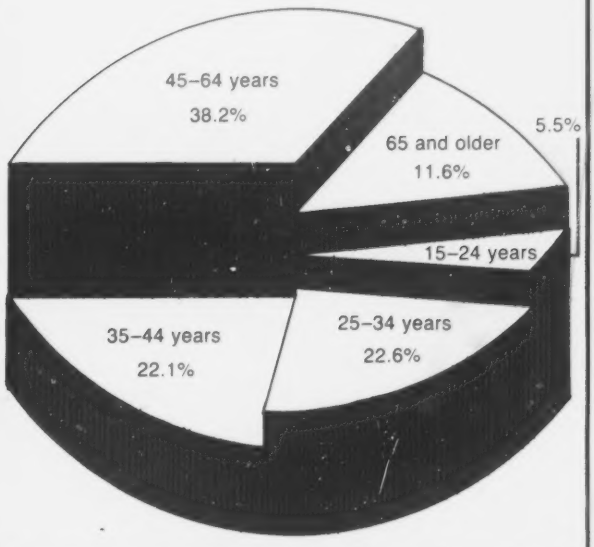
S&MM MARKETGRAPH

The middle-aged: Living it up

While the poet Byron deplored the midlife stage as "that horrid equinox . . . of human years," marketers in the 1980s will aim more selling appeals at the middle-aged market (which the Census Bureau labels as between 45 and 64 years of age). As Prof. William Lazer, Michigan State Univ., points out, "The middle years are generally the best income-accumulating years for the average family, and when parents feel free to spend on themselves [because] the children are grown." As a result, says Sandra Shaber, consumer economist at Chase Econometric Associates, "affluent families in their forties and fifties will stimulate spending [in the 1980s] for higher-priced autos and other durables which fit into a life-style including few or no children, as well as for goods and services for leisure activities."

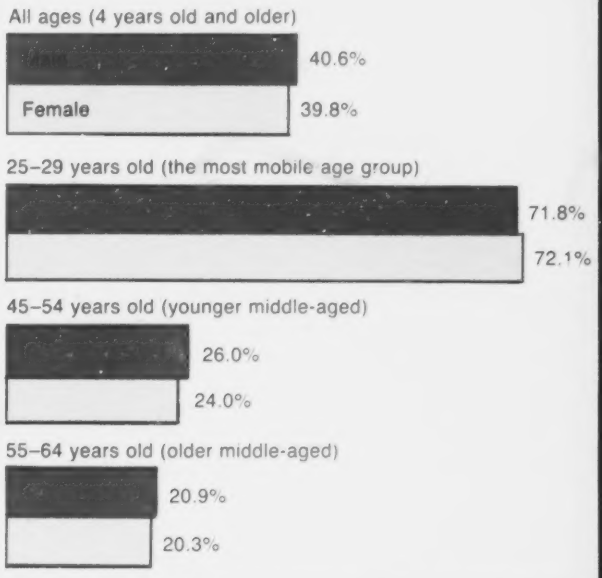
Although representing only 31% of all households, the middle-aged account for 38% of total buying power.

% of total money income by age of householder



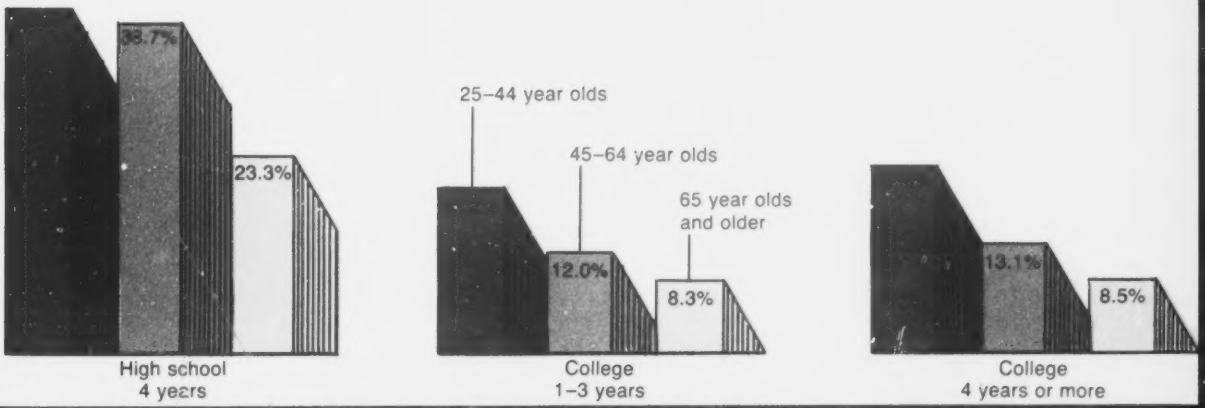
Established in their careers and with community roots, the middle-aged are less likely to move.

% of persons moving between 1975 and 1979



Compared to baby boomers (25–44 years old), the middle-aged had completed their education before college mania hit.

% of schooling completed



Sources: Census Bureau, *Social and Economic Characteristics or Americans During Midlife, Series P-23, No. 111; Money Income of Households in the U.S.: 1979, Series P-60, No. 120.*

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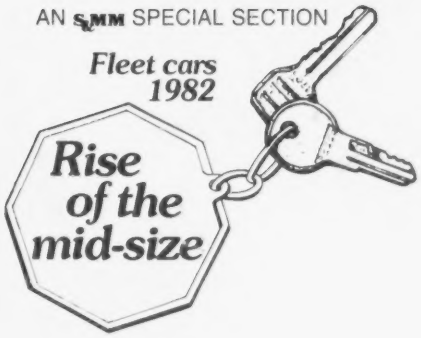
Fleet cars 1982

Rise of the mid-size

Although sales and marketing executives are still in the process of downsizing their sales fleets, the mid-sized, front-wheel-drive car is as far down as most want to go. These days, that seems to be the best way to balance cost and performance.



Getting the most out of every mile

By AL URBANSKI
Associate Editor

With gasoline readily available throughout the country and its price fairly stable, the frantic rush of fleet managers to get their drivers into downsized, fuel-efficient cars seems to have subsided. After a few years of watching fleet purchasers experiment with various methods of wringing better fuel economy out of their cars, fleet sales directors at the major U.S. auto companies think they know where the average sales-fleet driver will be sitting for at least the next three years—and that is behind the wheel of a mid-sized, front-wheel-drive automobile with a six-cylinder engine.

This is not to say that sales and marketing executives no longer worry about fuel economy. When asked which fleet costs have risen most, 70% of the respondents to S&MM's 1981 survey of sales-fleet managers (see tables, page 65) answered "gasoline." That is compared, however, to 89% who so responded last year.

The minds of fleet managers this year are more occupied with the staggering prices of new cars and the soaring interest rates they face in trying to finance them. Hoping that rates will eventually drop, more and more managers are putting off new-car purchases and extending the replacement cycles of their vehicles well beyond the normal 24 months, in turn creating a problem for auto manufacturers: how to lure fleet purchasers out of the waiting game and get them to place orders.

"Looks like a fire sale"

The answer came with a barrage of early-order incentive programs from all quarters of Detroit. In return for placing fleet orders before the fall introduction season, manufacturers offered buyers rebates, guaranteed interest rates, and a bevy of free options. Ford went so far as to guarantee the resale value of all its cars. In the words of Chevrolet's director of fleet sales, George Frink, "The industry looks like a fire sale."

Some key findings in S&MM's exclusive survey:

♦ More than 37% of respondents claimed that operating costs have risen 11%–15% in the past year, and another 30% said the increase topped the 15% mark. Nearly two-thirds of those polled cited initial car prices as the area where costs have risen most.

♦ Despite skyrocketing costs, fleet executives affirm that the automobile is an indispensable business tool. Nearly 40% say they plan to increase the number of cars in their fleets over the next three years and also increase the amount of driving their representatives do in line with sales growth.

♦ Maintenance and repair bills demand a larger share of the fleet administrator's budget. In this year's survey, 40% more respondents named this area as a prime cost concern. Observers think this is a side effect of extending replacement cycles mixed with the inflated costs of labor and parts.

♦ The majority of sales representatives (52.3%) still harbor negative feelings about small cars, yet managers are still committed to downsizing, with 49% of them saying that at least half of their fleets will consist of compacts or subcompacts within the next three years. Sales executives find it hard to agree on what exactly constitutes a "small" car, how-

Highlights of S&MM's sales-car survey

1. Where have fleet costs risen the most?

	1981	*1980*
Gasoline	70.0%	89.2%
Initial car prices	63.8	61.8
Maintenance and repair	32.3	23.2
Lease terms	20.0	26.1
Insurance	14.6	17.6
Administration	.8	2.2

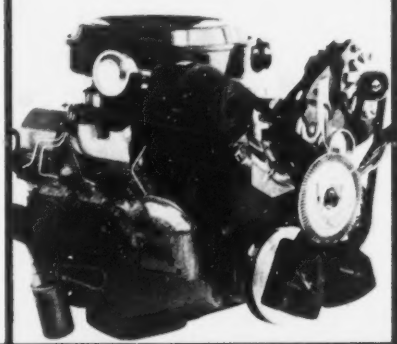
2. What has been the trend in your fleet-car operating costs during the past year?

Up 1%–5%	4.6%
Up 6%–10%	20.0
Up 11%–15%	37.6
Up more than 15%	30.0
Stayed the same	3.8
No answer	4.0

3. Which of the following steps have you taken to help cut fleet costs?

Scheduled calls in same general areas	43.8%
Used more telephone selling	40.7
Redrawn territories	25.3
Put off purchases or new leases	22.3
Used more direct mail	19.2
Cut down sales-call frequencies	16.1
Cut back on car options paid by company	12.3
Limited eligibility for fleet cars	11.5
Downsized fleet cars	9.2

Survey results are based on a mailing to 1,000 S&MM subscribers. By the cutoff date, 176 questionnaires were received. Of those who responded, 130 provide sales cars to some of their salespeople or reimburse them for the business use of their personal cars. The results for 1980 are taken from the survey that appeared in S&MM's Oct. 6, 1980 Fleet Car Special Section. The base for those answers is 176. In certain cases, totals exceed 100% because some respondents gave multiple answers.



4. During the next three years, do you plan to:

	1981	*1980*
Increase the number of fleet cars	39.2%	28.0%
Reduce the number of fleet cars	7.7	4.7
Maintain current levels	40.8	67.3
Unsure	12.3	—

5. What changes have you made or do you plan to make in using fleet cars?

	Have Done In Past Year		*Plan To Make In Coming Year*	
	1981	*1980*	*1981*	*1980*
Increase driving in line with sales growth	25.4%	21.6%	40.0%	34.4%
Reduce driving slightly	23.1	30.9	17.0	25.2
Reduce driving significantly	3.8	11.1	3.8	4.6
Stay about the same	47.7	36.4	28.4	35.8
Unsure	—	—	10.8	—

6. What % of your fleet consists of small cars (compacts and subcompacts) . . .

% Of Fleet In Small Cars	*(% Of Respondents) 1981*	*1980*
0%–24%	62.3%	78.2%
25%–49%	11.5	11.5
50%–74%	11.5	6.1
75%–100%	8.5	4.2
No answer	6.2	—

. . . and what will be the % three years from now?

% Of Fleet In Small Cars	*(% Of Respondents) 1981*	*1980*
0%–24%	30.8%	28.6%
25%–49%	10.0	16.8
50%–74%	16.2	21.7
75%–100%	33.0	32.9
No answer	10.0	—

7. What is your sales force's attitude toward small cars?

	1981	*1980*
Negative	52.3%	46.6%
Neutral	33.1	37.4
Positive	14.6	16.0

8. Are salespeople helping to keep fleet costs down?

	1981	*1980*
They're somewhat cooperative	57.0%	45.2%
They're very cooperative	37.0	40.3
They're not cooperative at all	6.0	14.5

9. What incentive, if any, do you offer salespeople to keep fleet costs down?

None	84.6%
Bonus	3.8
Increased profit sharing	3.8
Let them keep their jobs	3.0
Other	4.8

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ever. One person's "mid-sized" car is another's "compact."

With fuel economy their goal, all but the most diehard sales executives have introduced compact cars to their fleets in recent years, some with a definite plan in mind, others "irrationally," according to one auto-company executive. Now the returns on small cars are in, and many are disappointed with the long-term economic value of the compact. "We put about 30 downsized cars in our fleet last year," says Tom Brunner, marketing manager for Macwhyte Co., Kenosha, WI, "and we noticed a marked drop in the durability of their engines and drive trains compared with larger cars."

Having had the chance to measure the cost-saving virtues of the downsized car against such factors as company image, space requirements, and the driver's state of mind, sales-fleet managers have a better picture of what the "correct" type of fleet car should be. It will definitely b smaller than in the past, but not *too* small. "Fleet cars are not going to keep getting smaller and smaller," says John Cain, vice president of auto leasing for Associates Leasing, Chicago. "The mid-sized, front-wheel-drive car is pretty much going to be *the* fleet car for the next three to five years."

Detroit's move away from the rear-wheel-drive car has allowed fleets to downsize, yet retain a good portion of much-needed trunk and seating

Why Xerox gambled on 5,000 K-cars

Chrysler is number three, so it tries harder—and that includes the fleet-sales department. Last year it captured the biggest prize in the business: Xerox, keeper of the nation's largest fleet. Between October 1980 and April 1981, the business-machine giant replaced more than half of its 9,300-car stable with 5,000 hot-off-the-assembly-line K-car station wagons.

Why would the world's most sophisticated team of corporate fleet managers gamble so much money on a brand new model with no track record of resale or performance? "We did a lot of testing on the vehicle and were really pleased with its performance," says Ron Pink, business manager of vehicle fleet operations for Xerox. "And since the car is a front-wheel-drive, we based its resale appeal on that of Chrysler's front-wheel-drive Omnis and Horizons, both of which were selling great on the used-car market. We told top management that it was a high risk, but it was the right product for us. Our decision had nothing to do with rescuing a troubled company."

Chrysler nailed down the account by creating an elaborate service program exclusively for Xerox. "We established hot lines between Xerox and our service and parts division in case any of their cars are down or need parts," says Fran Hazelroth, Chrysler's director of fleet and leasing. "We also had each of Xerox's drivers submit a report

Photo courtesy of Automotive Age

Chrysler's Iacocca (l.) with Ron Pink of Xerox.

to us detailing the condition of the cars when they received them and fed the returns into a computer. If a Xerox guy has problems with his car, we'll turn handsprings to help him, and I'm talking about everybody, Mr. Iacocca [Chrysler's CEO] included."

The public relations value of the sale has been priceless to Chrysler. "I get calls all the time from fleet managers at other companies wanting to know about the K-cars," Pink says. Consequently, Chrysler is grabbing other big fleet accounts—International Harvester for one—by offering them tailor-made service programs similar to Xerox's. It has also resold Xerox. The company will add another 3,000 K-cars to its fleet next spring.

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space. "I can't imagine downsizing a car with rear-wheel drive," says Fran Hazelroth, director of fleet and leasing at Chrysler. "You'd have to have rickets to fit into the thing." Hazelroth also says that front-wheel drives bring a smile to the fleet manager's face at resale time. "There's a definite shortage of front-wheel-drive cars on the used-car market because of their limited production," he claims.

Lee Hatch, traffic manager for Deseret Co., Sandy, UT, is in the process of converting his company's entire 250-car fleet to mid-sized, front-wheel drives, hoping to save money on tires as well as fuel. "Because the back tires are just rolling and not pushing, most of the rubber loss is going to come off the front tires," he says. "So instead of replacing four tires every 30 or 40 thousand miles, we hope we'll only be replacing two."

While everyone knows that the tables can turn quickly, fuel is in abundant supply and its price has remained stable throughout 1981. To be sure, fuel economy will continue to be one of the sales manager's major considerations in selecting a new car line, yet he may be more willing to sacrifice a few extra dollars in return for more seating and storage capacity. "I have a contention that makes people sit back and stare at me," says Chevy's Frink with a conspiratorial smile. "I say, 'Fuel economy is no longer important.' What's happened over the last two or three years is that fuel economy became 70% of the weight in a buying decision. My contention is that that's wrong. I'm not saying it was wrong in the mid-1970s, I'm saying it's wrong in 1982. You can't *buy* a fuel-inefficient car today!"

Frink goes on to say that

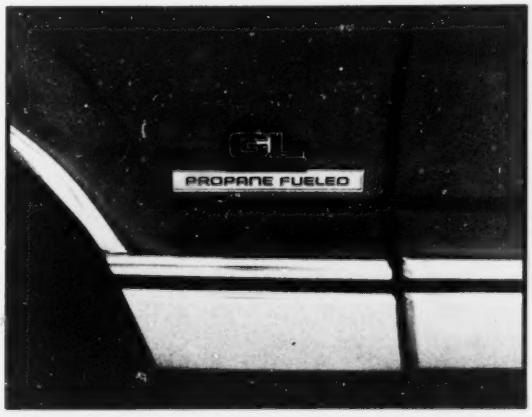
Ford offers fleets a life outside OPEC

How would you like to parlay 20-mpg fuel economy with fuel that costs as little as 70¢ a gallon? A pre-OPEC fantasy? The people at Ford are trying to make this fleet manager's dream come true.

This January, Ford will offer a propane-fueled Granada to its fleet customers in the U.S. Propane, technically known as liquefied petroleum gas (LPG), currently sells for about two-thirds the price of gasoline. In addition, the fuel gives off a very low level of hydrocarbon after burning, making emission-control valves and catalytic converters obsolete in the propane car. "It's a simpler system than the gasoline car, so less can go wrong with it," says Joe Caddell, light truck and power trains marketing manager for Ford. "And because hardly any carbon accumulates in the car's combustion chamber, its engine life is longer."

While propane is substantially cheaper than gasoline, it also contains less energy per gallon. But Ford says the difference is minimal, claiming that in a 20-mpg automobile the operator will lose only one or two miles to a gallon using propane.

Moreover, the long-term outlook on propane's availability is good. Since about 60% of LPG is extracted from natural gas, Ford estimates that 90% of the propane used in the U.S. can be produced domestically.



Distinguishing mark of the propane Granada.

But for now, where does one find a service station that pumps LPG? Only 3,000 outlets here provide propane, a large number of them in the West. So Ford is pitching its first propane models to fleets that drive home each evening to a common base where an LPG fueling station can be set up. This can be done inexpensively, Caddell maintains, since propane can be pumped into the car from above-ground tanks using a special nozzle, eliminating the need for costly underground tanks and pumping systems.

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Rise of the mid-size

fleet buyers are finally beginning to understand that, taking attendant costs into account, they may not be saving all that much money with cars that get any more than 25 miles to the gallon. "Let's say you've got a 25-mpg Celebrity, our new intermediate," he says. "To get 30 miles a gallon, you've got to go to a Chevette, a subcompact. Now that's a good, dependable car, but I don't know if you want your salesman driving 25,000 miles a year in it."

Nelson Karney, director of fleet sales at Pontiac, feels that availability of fuel plus technological advances in car design will increase the amount of driving done in 1982. "You also have to work a little harder for the business you get today," he says, "and that means making more sales calls." Karney is counting on this perceived trend to restore Pontiac's high-performance image, in turn helping the company to revive its flagging fleet sales by appealing to the youthful business driver. "We're going to talk about the fun of driving again," he says.

Respondents to S&MM's survey back Karney up somewhat, indicating they're doing a little more driving and a little less telephone selling than they did last year. Still, a healthy number of companies are, whenever possible, trying to reach borderline customers without driving to their door. "We compute the distance between calls and measure that against sales we've been making in the area," says A.W. Schafer Jr.,

New for 1982 (clockwise from top left): Renault 18i wagon; Plymouth Horizon; Mercury Zephyr; Toyota Cressida; Oldsmobile Cutlass Supreme; and Chevrolet's J-car, the Cavalier.

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vice president of Merc-O-Tronic Instruments, Almont, MI. "If the return is low, we go to the telephone and direct mail."

Put off by the high cost of new cars and money, and buoyed by a robust used-car market, more fleet managers are also turning to extension of replacement cycles to cut expenses. Detroit's fleet executives agree that the average road use of a fleet car has jumped from 24 months to 27, indicating that a good number of fleets keep cars on the road for 36 months. "When you're going from paying $6,500 for a car to $10,000," says Associates Leasing's Cain, "you want to prolong your investment."

One who has applied this reasoning is Walter Krieger, sales vice president at Eberhard Faber, Crestwood Park, PA. "We always used a two-year cycle," he says, "but escalating costs made us look more carefully at our figures. We saw that we could save money by pushing our cars servicing urban areas to 36 months. This isn't practical to do, though, if you're going to drive a car more than 60,000 miles."

Marty Levine, manager of fleet marketing at American Motors, however, sees the prolonging of fleet-car life as a temporary situation. "A lot of the cars being extended to 36 months are the larger 1980 models with eight-cylinder engines that have all of a sudden become saleproof," he claims.

Fleet managers confused

In an attempt to discourage fleet managers from extending the life of their cars, and thus make it easier for them to buy new ones, domestic auto companies showered commercial vehicle users with incentives. Leasing and fleet management company executives report that Detroit's largesse caused many customers to rethink their buying plans. Jim Frank, president of Wheels, Inc., Chicago, says "Many are not extending their replacement cycles because they want to take advantage of these offers." But, adds Bob Ward, president of Gelco Fleet Management Group, Eden Prairie, MN, "the big question is which of the many alternatives do you take?"

Summertime enticements

Throughout the summer, fleet managers were in a quandary over how the various enticements thrown their way stacked up against each other. All General Motors divisions offered the same guaranteed interest rates, yet some divisions gave buyers the alternative of choosing a free option on some models while others did not. Ford is guaranteeing the resale value of all models, while Chrysler gives rebates ranging from $350 to $600 depending on the model selected, throwing in a choice of a free AM/FM stereo or CB radio. "Manufacturers came out with some good programs," says Associates Leasing's John Cain, "but they also confused a lot of people."

Adding to the confusion is a lack of clear-cut class definitions that could be applied to similarly sized models produced by different auto companies and divisions. "When a fleet manager is trying to pick the incentive program that's

Associates Leasing's Cain

Gelco's Ward

Wheels's Frank

Chevrolet's Frink

Pontiac's Karney

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best for his company, he has to be careful that he's looking at comparable vehicles," says Bill McCreedy, Ford's dealer-leasing manager. "It's tough to tell if a J-car sets off against an Escort or if the K-car sets off against the Fairmont. There's a difference of opinion."

McCreedy feels that the outpouring of incentives from Detroit signals increased competition for fleet accounts, especially at a time when the auto industry's retail sales are lagging. Others, like Pontiac's Karney, disagree. "Selling to the fleet market is as competitive in a good year as it is in an off year," he contends. Yet another fleet-sales manager suggests that the saturation of incentives may have resulted from the fact that the major auto companies' products are more price-competitive with each other than ever before. "The cost differentials between our products and someone else's are almost nonexistent today," says Lincoln-Mercury's John A. Rowley. "Winning the fleet account is purely a question of what kind of service we can supply to our customer."

Forsaking options

While auto companies use free options as a way of attracting commercial business, many fleet administrators are beginning to shy away from loading their cars with frivolous extras. In recent years, it has been a common practice to gratify a driver being forced into a downsized car by packing his unit with options, the price of which would be recovered on the used car lot. But that strategy is beginning to backfire. "Used cars are becoming so expensive, many retailing for $5,000," explains Jim Frank of Wheels, "that nobody is going to want to pay any more for options they're not going to use." Frank also reports that providing the prestige nameplate—another way of easing the chagrin of a salesperson being given a smaller car—is on the wane because of high initial costs. But purveyors of one so-called prestige nameplate—Oldsmobile—are not worried. "We just completed a survey on resale value of our 1979 models," says John Wellman, director of national fleet sales at Olds, "and we retained 95% of the cost of the Cutlass Supreme Coupe. Sure, inflation has brought up resale prices, but most other makes are still only retaining 65%."

Diesels advance

Oldsmobile has also seen an increase in the fleet popularity of its diesel engines, which it manufactures for all GM divisions that offer them. Wellman maintains that the diesel engine produced by Olds is comparable to any other manufactured anywhere in the world. "We had some initial problems with them," he admits, "but we've stood up and taken care of them."

Bob Burns, president of Automobile Leasing, Inc., Troy, MI, says that when it comes to diesels, fleets either love 'em or hate 'em. "A lot of our customers won't even think of trying the diesel," he says. "Others won't drive anything else." One fleet buyer who has been sold on diesels is Al Crider, sales

Oldsmobile's Wellman

Ford's McCreedy

American Motors' Levine

Chrysler's Hazelroth

Buick's Stephan

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manager for Poly Plastic & Design in Springfield, OH. "We feel the diesel approach will help reduce maintenance and fuel costs and still give us the comfort of a big car," he says.

Another comfort to manufacturers of higher-priced cars is the fact that companies often provide certain automobiles in order to attract quality salespeople and keep them in the force. A study of S&MM subscribers conducted early this year by Erdos and Morgan, Inc., showed that of 766 sales executives whose companies provide cars to salespeople, 74% agree that the sales car is an incentive. Nelson Karney, of Pontiac, says that one of his customers recently purchased 30 Firebirds for his fleet, hoping the sporty cars would lure single, young salesmen into his company. "More and more salespeople are recognizing the car as a perk," confirms Oldsmobile's Wellman.

Tom Stephan, director of national fleet sales for Buick—another "prestige" name—claims that sales are healthy at his division, too. Lending some credence to Jim Frank's assertion that fleet buyers are turning away from adding new options, Buick is offering companies the chance to order its Regal Sedan minus some standard extras. "This allows them to get the nameplate, but leave off things they don't necessarily need," says Stephan. "It makes us more competitive."

Imports wait for spring

Less competitive in the fleet market this year are the major Japanese auto makers, whose "self-imposed" import limitations are making if difficult for them to solicit new accounts. Ron Green, national fleet administration manager for Toyota, is hopeful that the restrictions will come off by April, allowing his company to get in on the spring recycling period. Jim Tavasci, national fleet sales and leasing manager for Datsun, on the other hand, claims the limitations have not hurt Datsun's fleet business. "We introduced a new plan to dealers for special fleet orders," he says. "If a dealer lands a big fleet account, he will be allotted that amount of cars over and above his retail allotment." Green goes on to say that Japanese imports will continue to appeal to fleets looking for small, fuel-efficient cars. "Detroit is making strides in design," he says, "but they don't have the total package together yet." In S&MM's survey of sales and marketing executives, 18.5% said they had some imports in their fleets.

Maintenance costs up

While sales-fleet administrators are being tenacious in controlling costs, there is one area of cost concern they are having a hard time keeping pace with: maintenance and repair. More than 32% of respondents in this year's survey named it as a major fleet expense, up from 23% last year, pushing it ahead of lease terms to number three on the list of top expenses. Auto-company fleet executives cite inflation as the major cause, quickly pointing out that scheduled maintenance intervals, such as for oil changes, are farther apart than ever be-

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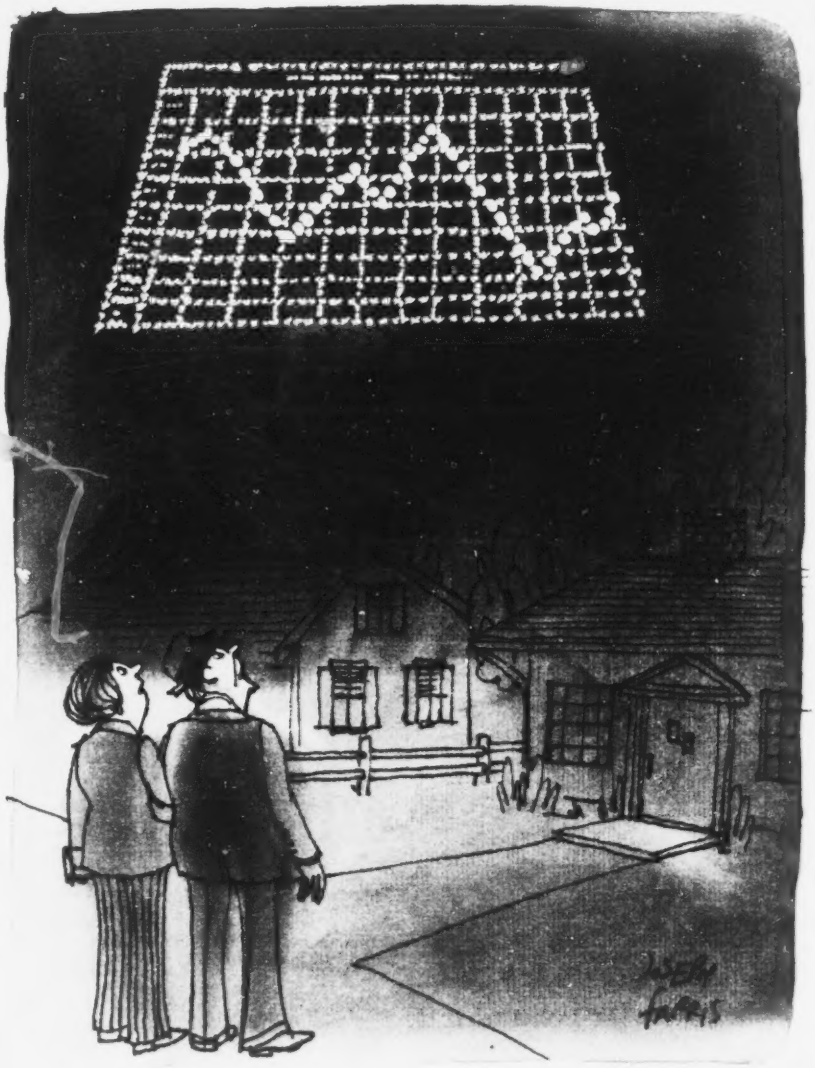
fore. Another reason is that salespeople are driving a new breed of car that may present problems they're not used to. "There are some prices to be paid for the fuel economy and the packaging we're going to," says Chevy's Frink. "If the automatic transmission fails in a front-wheel-drive car, the axle is probably going to fail with it. So what used to be an $800 bill is going to be $1,200."



"The condition of the world?"

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There is no doubt about it, the job of the sales manager-cum-fleet administrator is getting more complex every day. Consequently, corporations are attaching greater importance to the fleet manager's role, with some large companies making it a full-time position. "More and more, the opinions and judgment of sales managers are being called upon by top management when it comes to deciding what kind of cars their sales forces are going to be driving," says Gelco's Bob Ward. The study of S&MM subscribers conducted by Erdos and Morgan bears out this observation. Of 766 sales managers who said that their companies provide cars to their salespeople, 44.8% said they were personally involved in selecting makes and models.

Old ways must change

Jim Frank of Wheels thinks that, because buying factors in the fleet-car market are changing so rapidly, sales managers will have to pay even more attention to fleet considerations if they want to give their companies the best return on their dollars. "The old fleet, where you made a plan for the year and forgot about it, has to go," he says. "The manager of a sales fleet has to have the ability to react to changes in the market. If a manufacturer comes out with a great new program, he should be able to alter his plan and take advantage of it."

Automobile Leasing's Bob Burns says that sales executives charged with running the company's fleet are already implementing Frank's advice. "They'll tell you they're confused, but they're not, really," he says. "These guys spend a lot of time comparing models, prices, and programs, and today they're just as well-informed as we are." S&MM

NOTE

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